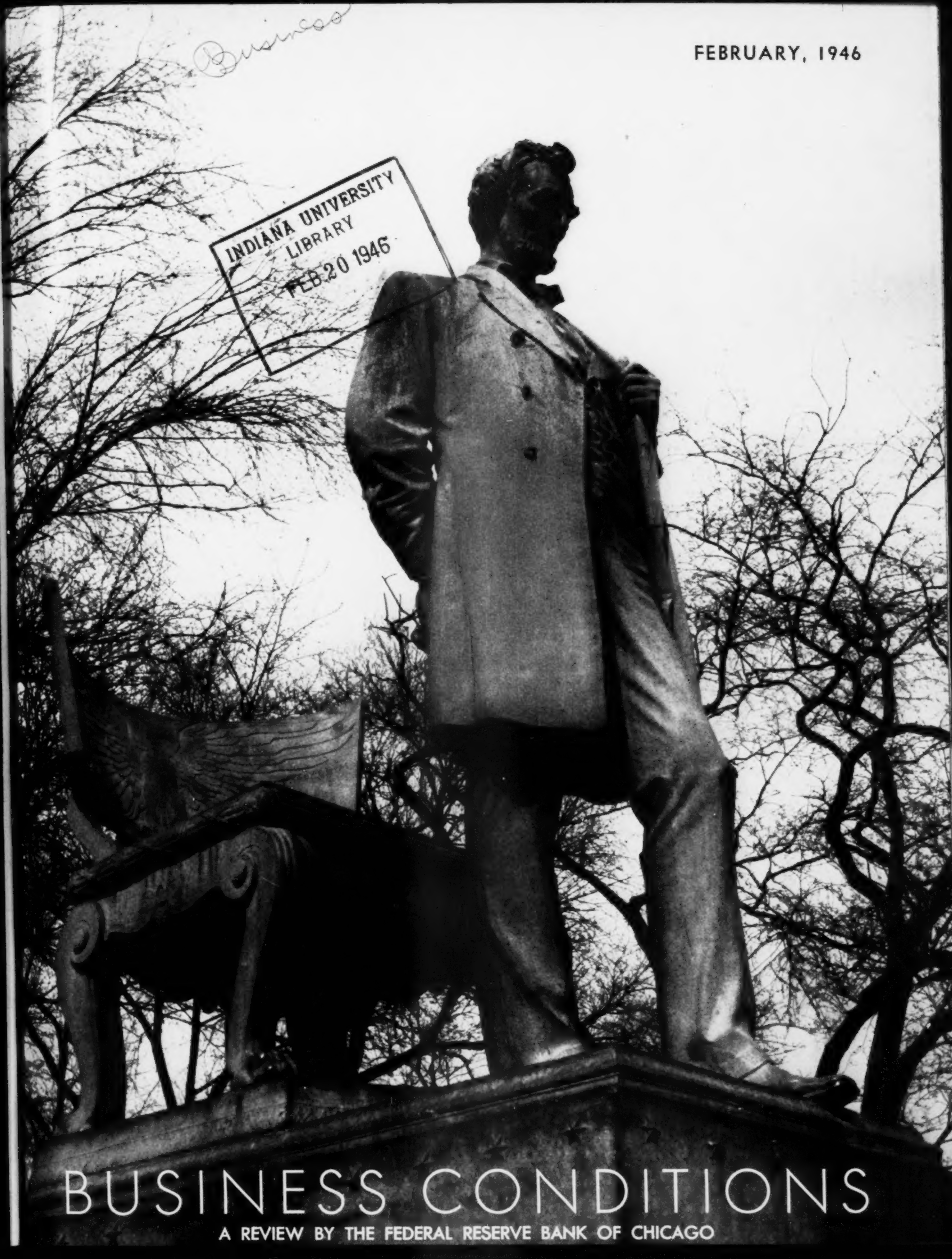
FEBRUARY, 1946



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Seventh District Bank Debits Decline

Decreases in Nine Cities Offset Many Gains Elsewhere

Reflecting primarily large-scale cuts in war production, declines in the volume of bank debits in nine industrial areas, notably Detroit, during 1945 offset moderate to substantial gains in other reporting cities, causing the bank debit total for the Seventh Federal Reserve District sample to fall below that of the previous year for the first time since 1938. As shown in the accompanying table, debits of reporting banks in the 50 centers included in the Seventh District sample dropped below the 1944 total by one per cent. While this decrease may be attributable almost entirely to the 13 per cent drop in Detroit bank debits, other declines also occurred in Rockford, Illinois; Ottumwa, Iowa; Bay City, Jackson, Lansing, Muskegon, and Port Huron, Michigan; and Manitowoc, Wisconsin. Increases were made in all other reporting cities, ranging from one per cent in Muncie, Indiana, and Waterloo, Iowa, to 25 per cent in Terre Haute, Indiana.

The monthly volume of debits in Detroit during the first half of 1945 showed only minor changes from comparable 1944 figures. With large-scale war contract cancellations following V-E Day, war production at first tapered off gradually and then declined sharply. This pattern contributed significantly to a marked drop in bank debits in July, and levels during the remaining months of the year were from 20 to 30 per cent below corresponding levels in 1944.

The huge volume of debits of reporting Chicago banks generally dominates District debit totals and establishes their pattern of movement. During 1945, however, Chicago debits increased two per cent, while those for the District were falling one per cent. The Chicago gain is attributed to higher-than-year-ago levels during January, April, May, June, and December, but this increase, it can be seen, was not sufficient to offset declines in other industrial areas of the District which were affected by reduced war production earlier and more sharply.

Comparison of 1945 bank debits with those of 1939 shows large increases for all centers included in the sample. Because of the revision of the District debits series in 1942, which added nine centers to the District sample and included additional banks in five other cities, certain adjustments have had to be made in order to obtain comparable 1939-45 data. For the 41 cities for which continuing data are available, the volume of debits in 1945 was more than double that in 1939. Chicago figures were almost exactly double while those for Detroit increased by 153 per cent. Excluding Chicago, the debits total for 40 comparable centers increased 133 per cent during 1939-1945.

BANK DEBITS OF REPORTING BANKS IN SELECTED SEVENTH DISTRICT CENTERS

Center	Amount (In millions of dollars)			1945 Percentage Increase or Decrease (—) From	
	1945	1944	1939	1944	1939
ILLINOIS					
Aurora	255	234	135	9	89
Bloomington	319	275	144	16	122
Champaign-Urbana	255	228	171	12	49
Chicago	75,262	74,129	....	2	....
Chicago	69,971*	....	34,966	....	100
Danville	236	212	116	11	103
Decatur	512	500	224	2	129
Elgin	164	149	93	10	76
Joliet	376	351	NA	7	NA
Moline	177	174	102	2	74
Peoria	1,509	1,392	668	8	126
Rockford	727	731	286	—1	154
Springfield	536	513	291	4	84
INDIANA					
Fort Wayne	903	884	377	2	140
Gary	390	356	194	10	101
Hammond	208	189	94	10	121
Indianapolis	5,093	5,001	2,402	2	112
Lafayette	224	213	NA	5	NA
Muncie	328	325	NA	1	NA
South Bend	961	808	442	19	117
Terre Haute	558	446	269	25	107
IOWA					
Burlington	171	165	NA	4	NA
Cedar Rapids	604	583	299	4	102
Clinton	154	133	68	16	126
Davenport	509	498	....	2	....
Davenport	440*	....	257	....	171
Des Moines	2,415	2,062	1,125	17	115
Dubuque	265	247	....	7	....
Dubuque	220*	....	110	....	100
Mason City	205	195	121	5	69
Muscatine	102	93	43	10	137
Ottumwa	219	230	NA	—5	NA
Sioux City	1,074	1,010	449	6	139
Waterloo	400	396	210	1	90
MICHIGAN					
Adrian	106	99	42	7	152
Battle Creek	333	322	144	3	131
Bay City	245	291	130	—16	88
Detroit	26,420	30,381	10,439	—13	153
Flint	606	589	299	3	103
Grand Rapids	1,284	1,197	637	7	102
Jackson	467	495	169	—6	176
Kalamazoo	588	502	259	17	127
Lansing	760	819	271	—7	180
Muskegon	496	550	NA	—10	NA
Port Huron	214	226	NA	—5	NA
Saginaw	487	473	257	3	89
WISCONSIN					
Green Bay	370	332	....	11	....
Green Bay	339*	....	178	....	90
Madison	797	725	NA	10	NA
Manitowoc	168	179	79	—6	113
Milwaukee	8,167	7,804	....	5	....
Milwaukee	7,280*	....	3,107	....	134
Oshkosh	208	193	108	8	93
Racine	565	499	NA	13	NA
Sheboygan	412	373	180	10	129
Total 50 Centers	137,804	138,771	....	—1	....
Total 41 Centers	128,091	....	59,955	....	114
Exclusive of Chicago:					
Total 49 Centers	62,542	64,642	....	—3	....
Total 40 Centers*	58,120	....	24,989	....	133

*Data comparable to 1939.
NA Data not available.

District Faces Urban Housing Crisis

Limited Prospects Seen for Reducing Home Shortage in 1946

In the midst of widespread work stoppages and controversies over price, wage, and profit levels and relationships, an increasingly severe urban housing shortage has emerged which can be expected to persist after solutions are found for many other current domestic economic problems. With hundreds of thousands of families already needing living space, thousands of newly discharged veterans returning daily, and new residential building prospects limited during 1946 by complex material and manpower shortages, the Seventh Federal Reserve District now faces an urban housing crisis which is certain to become worse for several months before much improvement can be expected. Shortages of farm dwellings are also appearing in the District but on a much smaller scale than in urban centers.[1]

WHY HOUSING SHORTAGE DEVELOPED

The growing shortage of housing facilities, widely considered to be the worst in the nation's history, has resulted from many causes, but is accentuated primarily by the large number of returning veterans, currently estimated at more than 100,000 per month in this District which comprises most of Illinois, Indiana, Michigan, and Wisconsin, and all of Iowa. The greater-than-average marriage and birth rates during the war, since V-J Day, and expected during the next year at least, are, of course, directly responsible for much of the current and anticipated upsurge in urban housing demand.

There also has been noticeable upgrading in the quality of housing demanded because of generally higher income levels. This condition together with the growing number of new families has caused increased effort toward the "undoubling" of families sharing housing facilities. It is now estimated that more than a million families in the nation, and probably well over 150,000 in this District, who were sharing housing units when the war ended are currently seeking separate living space. The severity of housing stringencies, however, prevents most families from finding any, not to mention better, living facilities. In fact, even the worst slums in the District are filled beyond capacity, and in many instances by families financially able to afford much better accommodations.

Not only has the over-all population of the District and the nation increased substantially since the outbreak of war, but wartime population trends have been toward urban areas. Wartime in-migrants to District cities, moreover, typically are remaining in the communities where they performed war work. Provision in the G.I. Bill of Rights for educational opportunities for veterans has created an increasingly acute housing shortage in most college and university areas, seriously limiting the number of veterans and others able to be accommodated.

This over-all housing demand situation emphasizes the fundamental inadequacy of housing construction during the prewar decade. Each year since 1932 the number of new families has exceeded the number of new housing units constructed. Hence, the general housing supply has been diminishing relative to potential, now current, demand for more than a decade. During the war years Government regulations necessarily restricted private home building as well as limited alterations and repairs.

How large the Seventh District housing shortage will be during 1946 obviously cannot be determined with real precision because of the many variable factors involved. There is general agreement, however, that the deficiency of dwelling units in the District and the nation probably will be greater than at any previous time. According to current national estimates made by Government housing officials, as many as 3.5 million veteran and non-veteran families will require homes by the end of the year. This estimate includes more than one million "doubled up" families requiring separate housing units, nearly three million veteran and 500,000 non-veteran families being formed or re-established, and assumes about one million vacancies. Relating these estimates to the Seventh Federal Reserve District, it can be expected that about 650,000 families will need housing space in this District by the end of 1946. At present there is widespread belief nationally and in this District that probably not more than one-third of this estimated demand for housing will be met during 1946 by new building and remodeling, with liberal assumption for vacancies arising in existing dwellings because of deaths, divorces, and other reasons. Therefore, further doubling up of families of discharged veterans and others appears inevitable.

The severity of the housing crisis and these limited prospects for immediate solution strongly suggest that more sweeping measures will be adopted nationally and in local communities so that new and converted residential construction may provide as many as twice the number of dwelling units currently estimated for 1946.

Although the critical housing shortages of major cities are receiving widespread publicity, a survey of this District reveals that communities of all sizes are experiencing the problem in varying degrees. Some of the worst housing stringencies, in fact, are reported in small communities which did not have major war industries. These cities and towns did not benefit from war housing projects, and, consequently, now face the difficult task of providing living space for war veterans and also for some

[1] Many of the conclusions presented here have developed from conferences with and data supplied by public and private housing specialists in this District, and particularly regional representatives of the National Housing Agency, the Federal Public Housing Authority, and the United States Bureau of Labor Statistics.

families returning from war production centers.

Detroit and Chicago stand out as having among the worst housing deficiencies of all major metropolitan areas in the District and the nation. Within the Seventh District only slightly less acute problems confront the Milwaukee, Indianapolis, and Des Moines areas. Public and private housing surveys report immediate shortages in Detroit as 20,000 units; city of Chicago, 50,000 units; Milwaukee, 7,500 units; Indianapolis, 5,000 units; and Des Moines, 2,000 units. While all of the foregoing figures are, of course, only approximate, nevertheless, they are generally considered to be indicative of the need and yet conservative because housing requirements are expected to increase further as demobilization continues.

A few newspaper headlines serves to illustrate the stress of housing shortages in this District:

"Drive is Set to Help Vets Find Homes," *Detroit Free Press.*

"Urban Home Crisis in 1946 is Predicted," *Chicago Journal of Commerce.*

"City Housing Need: 600 Units Monthly for Next Five Years," *Milwaukee Sentinel.*

"State Survey Predicts Two-Year Homes Crisis," *Indianapolis News.*

"Survey of 112 Areas Shows Critical Needs—Many Iowans Living in Barns, Garages," *Des Moines Register.*

While the housing crisis is so severe that all types of dwelling units are in demand, it must be recognized that most of the demand, nevertheless, is for low-rent, low-cost housing. Certainly this is true from a long-range viewpoint. Surveys of ability-to-pay reveal that veterans as well as non-veterans are overwhelmingly seeking units with rents of less than fifty dollars a month, and a substantial proportion can afford monthly payments of only thirty dollars or less. Correspondingly, prospective buyers are heavily concentrated in the $4,000 to $7,000 price range. It is thus apparent that a solution to the present housing crisis must not only provide an adequate number of units but at a price-cost range which can be met by persons needing such facilities.

CHIEF DETERRENTS TO HOUSING SOLUTIONS

With the critical nature of the current and impending housing shortage clearly established, most people are asking, "Why aren't we getting more homes?" At present there is no uniform agreement as to what is cause and what is effect in delaying new home construction, but at least the following deterrents are evident.

Critical Shortage of Materials—Not only are shortages of materials preventing the beginning of extensive new residential construction, but these same shortages now prevent the completion of perhaps as many as 7,500 partially built homes in the Seventh District. Supplies of virtually all building materials currently fall far short of demand, but lumber, bricks, nails, enameled plumbing fixtures, heating equipment, cast iron soil pipe, clay sewer pipe, structural tile, gypsum board, and lath are particularly scarce. Manufacture of these commodities has been hampered by many reconversion problems involving manpower stringencies, price-cost relationships, component part shortages, and tax considerations. Since early September 1945 when WPB relaxed some commercial and industrial building restrictions, there has been a noticeable diversion of available material supplies to commercial and industrial building from possible use in residential units. This WPB policy was designed primarily to speed physical reconversion of manufacturing and commercial establishments so as to minimize reconversion unemployment. The post V-J need for housing, however, soon necessitated a change in policy. Wartime residential building restrictions were revoked by WPB in mid-October, but it is apparent that even in this short period manufacturing and commercial builders, nevertheless, had gained a real material supply advantage over residential builders.

Acute Stringency of Skilled Manpower—Selective Service withdrawals, a marked one-way shift to steadier and higher paying war work after war construction was generally completed in 1943-1944, and an inadequate apprenticeship system during the war years and most of the prewar decade have created a critical scarcity of skilled building trades workers in this District and in most sections of the nation. Numerous houses and housing projects are now being delayed because of a shortage of bricklayers and carpenters. Other important stringencies for skilled workers are evident among electricians, cement workers, lumbermen, and millwork employees.

While many former construction workers are being discharged from the armed services, they nevertheless constitute only a small fraction of the number needed. Moreover, some of these men are reported to be seeking employment in other occupations which promise to be less vulnerable to fluctuations in general business conditions. Many veterans of the Army Engineers Corps and the Seabees are reported to be reluctant to serve extended, relatively low-paying apprenticeships, ordinarily without guarantee of eventual journeyman status, as required by union rules in the building trades. The union contention is that a program of extensive and well-rounded training is necessary before men can become fully qualified as skilled construction workers. Some relaxation of this policy, however, is becoming evident.

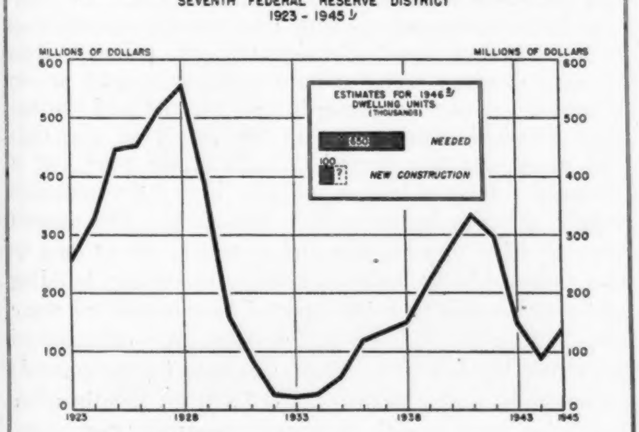
Questionable Building Practices and Regulations—Increasing attention is being given throughout the Seventh District to building limitations arising from antiquated building codes and other agreements affecting the use of building materials. Many codes set forth detailed material specifications rather than safety and performance requirements which would permit many new materials and methods to be introduced. The building trades unions are on record as being definitely opposed to any building program of "sub-standard" housing which threatens to create "potential slums." Prefabricated dwellings are generally opposed.

While it is agreed that health and safety considerations must not be neglected, there is increasing belief that

many current building requirements for materials and labor are excessive and must be changed or eliminated if the large-scale, low-cost building program needed to meet the current housing crisis is to get underway. Some unions in this District are now reported to have agreed to relax, at least temporarily, certain employment requirements, and several cities are reviewing their building codes, in general to expedite new residential building.

Rising Building Costs—The general uncertainty surrounding current building costs as well as their probable future levels now constitute another important deterrent to residential building in the Seventh District. Wholesale prices of building materials are reported by the United States Bureau of Labor Statistics to have advanced on the average at least 30 per cent since 1939. During the same period the BLS also reports an average increase of 14 per cent in basic hourly rates for union building trades workers. Many contractors anticipate still further rises in labor and material prices with the result that bids for residential construction now regularly contain clauses protecting builders against any such future cost increases. Moreover, most building cost estimates are reported to include large dollar amounts, for example as high as 25 per cent or more above present cost levels, to cover future price-cost contingencies. That present quoted building prices are "inflated" is now generally conceded, and this situation is likely to persist until current price-cost uncertainties are markedly reduced.

Many Seventh District families needing housing are in a serious dilemma over whether to attempt to build a new home or to buy an existing one with no assurance, of course, that either will be possible this year. With only limited prospects for new home construction, the demand for older dwellings has rapidly mounted, but relatively few such units are for sale because present owner-occupants have no alternative living quarters for themselves. It is reported in many sections of the Seventh District that thousands of homes, especially those in comparatively expensive suburban developments of the prewar decade or earlier, would become available for sale immediately if present owners could find other places to live. Current market prices for these dwellings for the first time in many years equal or exceed original prices. Although the number of existing homes being sold is comparatively small in the Seventh District, the sales which are being made are reported to be at prices ranging from 25 to more than 100 per cent above 1939 levels. Large increases are reported for all types of dwellings, and particularly for bungalows and older large brick houses. On the average, it is probably true that sales prices of homes in Seventh District urban communities currently are averaging about 50 per cent above their prewar levels.



VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS
SEVENTH FEDERAL RESERVE DISTRICT
1923 - 1945 1/

1/ 1945 PARTIALLY ESTIMATED.
2/ IN PART FROM NATIONAL ESTIMATES OF THE NATIONAL HOUSING AGENCY.
SOURCE: F. W. DODGE CORPORATION AND NATIONAL HOUSING AGENCY.

How many prospective home buyers will continue to follow up rising prices of existing or new dwellings is an important question. If the present housing demand proves to be as sensitive to price excesses as the similar demand was to price advances after World War I in this District, there may be reason to expect that the rapid expansion in residential construction, which now appears inevitable, may lose some of its force. In other words, the widely predicted building boom, particularly dependent upon low and medium income purchasers, can be seriously disrupted by further rises in building costs. In a year or so, when the most urgent housing needs have been met, increasing numbers of potential home buyers may recognize that they cannot afford new homes or may decide as after World War I, to wait for a downward price adjustment to more "normal" levels before building.

Fewer Building Contractors—Uncertainty as to the availability of materials and manpower to complete residential units, together with related price-cost problems mentioned earlier, are also limiting the number of active "speculative" builders who have constructed most homes in the past for average income families. Current estimates are that probably only half of the prewar builders or contractors in this District are now active. This comparatively low number has resulted not only because many contractors left the industry during the war and have not returned, but also because many cannot see sufficient certainty at present in completing new homes to insure a profitable turnover of their capital funds. Until a home is actually finished, the builder, of course, has no final financial claim upon the buyer or financing institution. There is some indication that more individuals are entering the construction business, but many of these appear to have had limited experience in residential building, particularly on a low-cost basis.

Despite the many foregoing strong deterrents to new building construction, the value of residential building in this District in 1945, nevertheless, was about one-third larger than the 1944 volume, but still failed to reach more than one-third of the 1941 level. Although this increase is indicative of the beginning of a new residential construction period, the number of new units completed in 1945 is, of course, relatively insignificant when com-

pared to the mounting need for new housing. Current estimates are that 1946 residential construction in the District and the nation must at least double the 1945 volumes, if even the most urgent general construction needs are to be met.

MEASURES TO IMPROVE HOUSING

The present housing crisis, which is attracting increasing public attention throughout the District and the nation, has brought forth a number of suggested solutions aimed at providing both immediate shelter for veterans and others without any housing, and, from a longer-run standpoint, not only more dwelling units but better dwelling units for many families now living in blighted areas. Throughout the Seventh District, most city governments have joined with local labor, veteran, and civic organizations in campaigns to provide at least temporary shelter for individuals without housing accommodations. These programs in which veterans have priorities generally include housing information bureaus, appeals to building owners to rent extra rooms, acquisition of temporary dwelling units from war production centers and armed service installations, use of military and naval barracks and living quarters at idle war plants, detailed study of local building material and manpower bottlenecks, and efforts to have local building codes and practices relaxed at least during the present crisis to provide emergency housing.

It is generally admitted that no single remedy mentioned here, or the entire group of remedies, can do more than alleviate temporarily a small proportion of the present expanding housing needs in most communities. New proposals are continually being made to meet the housing emergency quickly. It has been suggested, for example, that the Federal Government guarantee a vast production program of soundly constructed prefabricated dwellings. Government sponsorship would seek to stimulate such a large volume of output that costs would be low and suppliers of prefabricated units assured of profitable operations. Other measures now being considered include: (1) declarations of health emergencies by local governments giving them authority to utilize for housing any type of structure suitable for such purposes, and (2) plans for a Federal research program to demonstrate the value and safety of using new materials and new methods of housing construction. Should some or all of these measures be adopted, the actual volume of 1946 residential construction may be doubled from current estimates.

The Federal Government has re-established, effective January 15, 1946, a system of priority controls over certain key building materials to assist veterans in constructing or renting new low-cost housing. A $10,000 ceiling on new constructions, including cost of land, and $80 per month rent ceiling have been placed upon residential units for which priorities can be obtained for these key materials. How effectively the new priority system will operate in practice cannot now be determined, but it is also clear that even this program can meet but a small fraction of the need for new housing in 1946.

While primary attention must necessarily be given to provide shelter immediately for veterans and others needing housing, a longer range building program must also be developed which will provide as soon as possible the necessary number of dwelling units needed to house the District's population adequately. For the nation as a whole it is generally estimated that 12 million or more dwelling units will be needed. On this basis, the Seventh Federal Reserve District must correct a longer range housing deficiency of at least 2 million units. Essential to such an extensive building program must be stimulation of private investment, reduction of building costs, and revision of many current building codes and practices.

Attention to the nation's long-range housing needs probably will be focused on the Wagner-Ellender-Taft bill now being considered by Congress. This measure provides for Federal loans to cities for urban redevelopment (slum clearance), more liberalized FHA credit terms for homes for middle income families, low rent public housing, sale of permanent war housing, research in the technical aspects of construction and studies of housing needs, rural housing, and the continuation on a peacetime basis of the coordinated Federal housing program under the administration of the National Housing Agency, coordinating the work of the Federal Home Loan Bank Administration, Federal Housing Administration, and the Federal Public Housing Authority. This omnibus bill already has received considerable comment. Principal support comes from persons believing that such a measure is prerequisite to any comprehensive solution of the nation's acute housing problems, old and new. Critics are usually fearful of the bill's extension of Governmental control over housing and question the present need for more liberalized credit terms.

IMMEDIATE OUTLOOK FOR HOUSING

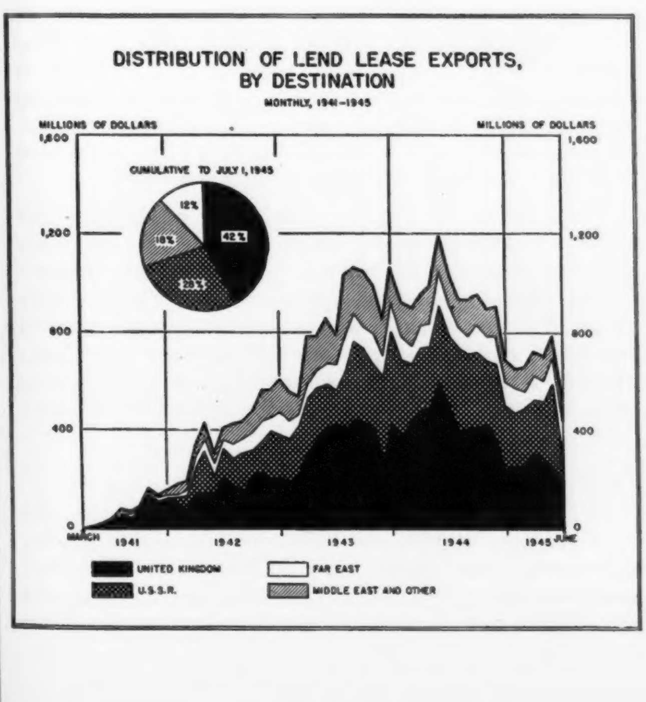
Because of present material and manpower shortages and unfavorable seasonal weather conditions, the outlook is for comparatively little new housing construction to begin before April. Consequently, the present urban housing shortage seems certain to become much worse before it begins to improve in this District and the nation. Gradual improvement in the supply of materials and manpower is expected throughout the year, but it probably will be at least a full year before the materials supply situation begins to ease noticeably. The present housing crisis may be expected to persist for as long as two years with the result that many emergency building and rent controls may be expected to continue for some time. Many of the housing developments experienced after World War I, in short, can now be anticipated: increasingly severe housing needs for many months after hostilities have ceased, increased pressures upon rents, acute material shortages, further price rises, and continued price-cost uncertainties.

Lend-Lease in Review

Wartime Mutual Aid Beneficial to Peacetime Economic Relations

Few issues in recent public policy have provoked more praise and at the same time more bitter censure than the lend-lease program. During more than five years of global war, total lend-lease aid amounted to over 46 billion dollars of supplies and services and constituted almost 15 per cent of total United States war expenditure. Although the fundamental philosophy of the program has had widespread public support in this country, it did not escape attack.

While lend-lease was designed to provide our Allies with essential war materials without incurring large fixed dollar debts, it was never an act of charity. The statutory title of the lend-lease law is "An Act to Promote the Defense of the United States." Through it the President was granted power to procure and "to sell, transfer title to, exchange, lease, lend, or otherwise dispose of" defense articles or information to any country "whose defense the President deems vital to the defense of the United States." The Act thus recognized that the defeat of the Axis aggressors was necessary to American security and undertook to remove the financial obstacles to an effective system of war supply against a common enemy. It prepared the ground for the international pooling of economic resources which added tremendous strength to the Allied war machine. Because of its vast productive capacity and relative remoteness from Axis destructive activity, the United States became literally the arsenal of democracy.



The term "lend-lease" is misleading in that it seems to imply the requirement of some sort of financial or material repayment, whereas the intent of the Act was clearly to avoid the accumulation of commercial war debts such as those which plagued international economic stability after World War I. Lend-lease was not a loan of dollars. Its basic job consisted of the procurement and transfer of goods and services at the time and to the place where they were most urgently needed from the standpoint of over-all military strategy. The terms and conditions upon which a foreign Government might receive such aid were designated as whatever should be deemed satisfactory by the President, including any direct or indirect benefits acceptable to him. The other United Nations reciprocated with reverse lend-lease to the extent permitted by their limited resources, but the chief benefit to the United States in return for lend-lease aid was unquestionably the savings in time and in human lives made possible by the combination and coordination of both military and economic resources.

EARLY OBJECTIVES

Authority for lend-lease operations was granted on March 11, 1941, when the bill was signed by the President, and more than 8 billion dollars of lend-lease funds was allocated for the manufacture of war materials and facilities before Pearl Harbor. When the Act was passed, hopes were still strong that with the support of our economic resources Britain would be able to defeat the Axis powers before the United States was attacked. However, the supply of dollar exchange with which Britain could purchase American goods had been depleted by expenditures for war materials during its first year of war and by the obligations assumed when the British took over contracts placed by France before the latter country fell.

Early in the war Britain took numerous steps to mobilize and conserve all available dollar resources. The sterling area countries agreed to pool their foreign exchange and to allocate it according to its most urgent need. Strict exchange and trade controls were imposed on transactions with countries outside the sterling area. All holdings and foreign exchange and bank balances in the United States were requisitioned from British nationals who were compensated by the British Government in sterling. In the middle of 1940 the marketable investments of British citizens were mustered, and a large part of these were sold for dollars or pledged as collateral against loans. The loss of income from these investments, as well as from reduced shipping and a smaller volume of exports, intensified the pressure on Britain's

current balance of payments.

Of the estimated 4½ billion dollars in bank balances and assets convertible into dollars from both official and private sources as of September 1939, 2½ billion was used in the first sixteen months of the war plus an additional 2 billion obtained from the sale of newly mined gold and from exports. Most of the remaining dollar holdings had by this time already been pledged for war goods on order. Obviously, the dollar problem could not be permitted to halt or even to retard the British war effort. Nevertheless, loans of money were objectionable from several standpoints. Even assuming that the limitations of the neutrality legislation and the Johnson Act could have been satisfactorily cleared away, commercial loan negotiations would have caused dangerous delays in the shipment of vital war materials and would have created new postwar debt problems.

The primary need was to devise a system whereby defense articles could move swiftly to the crucial areas unhampered by financial considerations. It was equally important that the system be sufficiently flexible to permit such shifts in the allocation of American arms and equipment as might be most beneficial to the successful prosecution of the war. The establishment of lend-lease provided the machinery through which these objectives could be reasonably assured of fulfillment. Although British needs constituted the primary motivation for the program, the Lend-Lease Act, in making aid available to any country resisting aggression, foresaw the advantages of placing mutual aid on a world-wide basis.

ADMINISTRATION AND POLICY

Implementation of the lend-lease law meant a tremendous administrative task. Assignment of munitions and supplies on a world-wide basis required cooperation from a vast number of national and international sources. Immediately after Pearl Harbor the Army took over the job of planning and allocating lend-lease munitions, while the Office of Lend-Lease Administration was charged with clearing requests for non-munitions lend-lease aid. Six combined Anglo-American boards, which were created shortly thereafter to determine policies and make recommendations concerning the international pooling of resources, worked closely with the lend-lease authorities to insure the allocation of supplies in accordance with over-all military aims. Even after approval of a requisition was secured and the procurement process completed on behalf of a particular country, the Munitions Assignment Board or the Raw Materials Board could, in view of the military situation, reassign articles to other countries or retain them for American use. This flexibility was one of the major advantages of the lend-lease method of supply.

Requisitions for lend-lease aid had to meet certain specifications. To be lend-leasable, an article had to be established as necessary to the prosecution of the war, more important than any competing demand for available funds, and more beneficial to the total war effort in

TABLE I

SUMMARY OF LEND-LEASE EXPORTS CUMULATIVE TO JULY 1, 1945

(In millions of dollars)

	United Kingdom	U.S.S.R.	China, India, Australia, and New Zealand	Other Countries	Total
Munitions:					
Ordnance	638	325	175	385	1,523
Ammunition	1,301	484	243	504	2,532
Aircraft and parts	2,403	1,584	1,032	1,464	6,483
Tanks and parts	1,047	478	181	687	2,393
Motor vehicles and parts	704	1,323	548	579	3,154
Watercraft	692	268	78	94	1,132
Total munitions	6,785	4,462	2,257	3,713	17,217
Petroleum products	1,479	104	301	108	1,992
Industrial materials and products	1,925	2,947	844	828	6,544
Agricultural products	3,310	1,616	208	482	5,616
Grand totals	13,499	9,129	3,610	5,131	31,369

SOURCE: *Twentieth Report to Congress on Lend-Lease Operations*, page 47, August 30, 1945.

the possession of the applicant country than elsewhere. It could not be lend-leased if obtainable by any other means.

To avoid duplication and competition in the procurement process, purchasing of lend-lease items was handled by the agencies in charge of procurement for our own needs. Thus the Army and Navy Departments procured munitions; the Department of Agriculture, food; the Treasury Department, non-military supplies; and the Maritime Commission and War Shipping Administration, the building of merchant ships for lend-lease countries and shipping services, respectively. Funds for the procurement of munitions and ships were appropriated directly to the War and Navy Departments and the Maritime Commission to cover both our own and Allied needs. These agencies were authorized to transfer, in turn, completed military items to lend-lease countries up to a specified maximum value. This arrangement left to the military experts the discretion to assign finished supplies where they would be of greatest value.

To a limited extent the lend-lease mechanism was used to procure goods for which cash payment was made prior to delivery. In order to protect normal channels of export trade, however, operations of this nature were confined to special cases where essential war goods could not be secured in the open market. In many other cases the lend-lease organization assisted Governments making cash purchases to obtain necessary priorities and licenses.

THE LEND-LEASE RECORD

While the program was in operation, 44 countries were declared eligible for lend-lease aid, and lend-lease agreements were signed with 35 countries. The chief recipients were Great Britain, Russia, North Africa and the Middle East, and to a lesser extent, Australia, New

Zealand, India, and China. Although agreements were signed with most of the Latin American countries, only a small fraction of our exports to those countries were provided under lend-lease, largely because the increased volume of our purchases of raw materials provided them with adequate dollar exchange.

Lend-lease aid was divided into two general categories —goods transferred and services rendered. Transfers of goods comprised almost 90 per cent of the total aid, which was valued at 46 billion dollars through October 1, 1945. Munitions transfers alone accounted for 48 per cent of the total aid rendered. Non-munitions items included industrial machinery and materials, petroleum products, and foodstuffs and agricultural goods. Services rendered consisted principally of shipping and supply services—including rental and repair of ships and the construction of facilities in the United States for the production of lend-lease supplies.

During the first year of operation total aid was valued at approximately 2.4 billion dollars, of which about 68 per cent went to Great Britain. Foodstuffs were the largest component of lend-lease exports during this early period before United States munitions production had reached important proportions. Nearly 28 per cent of total aid consisted of services, including the construction of plant facilities which proved invaluable to the United States following the Pearl Harbor attack.

During 1941 lend-lease exports were still less than 15 per cent of total United States exports, and it was not until March 1942 that the monthly rate of lend-lease exports exceeded deliveries made under direct cash purchase arrangements. In contrast, over 80 per cent of all United States exports were under lend-lease for the year 1944.

TABLE II

REVERSE LEND-LEASE AID RECEIVED BY THE UNITED STATES; BY COUNTRY

CUMULATIVE TO APRIL 1, 1945

(In millions of dollars)

Country	Amount
United Kingdom	3,796.9
Australia	791.3
New Zealand	189.0
India	516.7
Union of South Africa	.9
Total British Empire	5,294.8
France[1]	272.0
Belgium[2]	26.1
Netherlands[3]	1.7
China	3.7
U.S.S.R.	2.1
Total	5,600.4

[1]Including French Africa and New Caledonia.
[2]Including Belgian Congo.
[3]Including Curacao and Surinam.
Note: In some cases data are preliminary.

SOURCE: *Twentieth Report to Congress on Lend-Lease Operations*, page 14, August 30, 1945.

In the second year, ending in March 1943, total aid valued at roughly 7.7 billion dollars was transferred under lend-lease—exports reaching a monthly rate of between 600 and 700 million dollars by the close of 1942. As the war progressed, both the geographic distribution of shipments and the composition of lend-lease aid were altered. In the second year Britain's share of all goods and services transferred was only 38 per cent, while 29 per cent went to the U.S.S.R., which was declared eligible for lend-lease in November 1941. Shipments of munitions under lend-lease were sharply increased during 1942, both in dollar amounts and as a percentage of total exports. The Soviet Union received the largest portion of munitions, including more than half of all lend-lease tanks and more aircraft than were sent to any other country.

From March 1943 through February 1944 lend-lease exports almost doubled the record of the previous year. Shipments of munitions continued to grow faster in dollar value than any other category. Aid to Great Britain rose slightly in relation to shipments to other areas. Russia again received approximately 29 per cent of total aid, including particularly large increases in food and industrial materials. Total aid rendered under lend-lease reached an all time peak of 1.6 billion dollars in March 1944 as preparations were made for the invasion of Normandy. Exports of goods reached a high of 1.2 billion in May, and thereafter were gradually reduced, with the greatest contraction occurring in munitions exports. In June, the month following V-E Day, emphasis was shifted toward aiding the Allied forces in the fight against Japan. In that month about 50 per cent of lend-lease shipments went to the Pacific theater of operations.

Table I summarizes the distribution of all kinds of goods exported under lend-lease from the beginning of the program through June 30, 1945. The difference between the 31 billion dollars of exports and total lend-lease aid of 42 billion is accounted for by (1) services, which totaled about 4.6 billion and consisted principally of shipping services, (2) goods transferred and awaiting export or transferred for use in this country, (3) the value of ships leased for the duration of the war, and (4) the value of goods purchased outside the United States and transferred under lend-lease. Of all lend-lease goods exported for the entire period, 42 per cent went to the United Kingdom, 28 per cent to the U.S.S.R., 13 per cent to North Africa and the Mediterranean area, and 12 per cent to the Pacific and the Far East. Munitions and petroleum products together accounted for 23 billion dollars or approximately 54 per cent of cumulative lend-lease aid. Industrial products were 21 per cent, foods 12 per cent, and services 11 per cent of the total.

In addition to the 42 billion dollars of lend-lease aid, almost 800 million dollars of goods was listed as consigned to the United States commanding generals for subsequent transfer under lend-lease. Most of these consignments were for the benefit of the French forces during the North African campaign and for the Chinese armies.

Of the 3.6 billion dollars of lend-lease goods shipped to the Far East, China received less than 200 million dollars for the entire period, although consignments of military supplies brought total aid to China to almost double that amount. Throughout the war period the flow of lend-lease supplies to China was seriously hindered by transportation difficulties which necessitated flying almost all supplies into China from India. In addition to goods, however, additional aid was rendered to China in the form of training of Chinese pilots in the United States and of Chinese troops in India.

Over one-half of lend-lease exports to Africa and the Middle East went to Egypt, and the heaviest shipments occurred during the middle of 1943 when the African campaign was in full sway. Munitions comprised about 75 per cent of all shipments to that area during 1943. The bulk of supplies shipped to Africa and the Middle East and much of those sent to India were for the use of British troops operating in those theaters.

RECIPROCAL AID

The principles of Allied cooperation and international pooling of resources implicit in the Lend-Lease Act were accepted and put into effect through the Master Lend-Lease Agreements negotiated with our principal allies. The British Master Agreement, signed February 23, 1942, was the model for subsequent agreements made with the other lend-lease countries. In addition to confirming the mutual advantages of a united war effort, the British Government in this document agreed "to contribute to the defense of the United States . . . and provide such articles, services, facilities, and information as it may be in a position to supply." This provision was supplemented by the Reciprocal Aid Agreements, which specified the types of assistance to be supplied as reciprocal aid or reverse lend-lease.

Under the terms of these agreements, the United States received a substantial volume of services and military supplies from our Allies, particularly after the middle of 1942 when large numbers of American forces began to be stationed overseas. Total aid received by the United States in the form of equipment, facilities, services, and supplies for our overseas forces was valued at approximately 5.6 billion dollars through April 1, 1945, the latest date for which records are available. Table II shows the breakdown of reciprocal aid by major geographic sources.

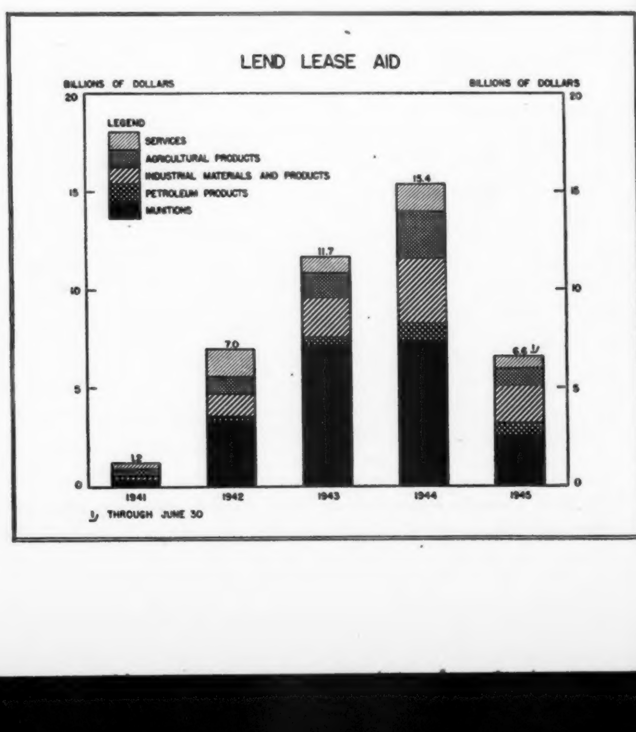
By far the largest part of this reciprocal aid was furnished by Great Britain and the other British Commonwealth nations. Barracks, airfields, military supplies and equipment, petroleum and coal products, and transport were the chief items supplied under reverse lend-lease by Britain. In addition, we shared important technical information on which it is difficult to place a dollar value. After D-Day France, Belgium, and the Netherlands also furnished United States forces with what supplies their limited resources could produce.

Because Russia and China needed for their own forces virtually all they were able to produce besides what they received under lend-lease, these countries did not supply many items under mutual aid. Nevertheless, Russia did provide supplies and services for American ships and aviators, while China's principal contribution consisted of millions of man-hours of labor used in the construction of American air bases in China.

THE SETTLEMENT

The lend-lease concept was designed to avoid the pitfalls of a postwar commercial debt. From the outset of the program, however, it was anticipated that there must be a final reckoning of benefits granted and received. In the lend-lease agreements the participating countries postponed the final determination of the lend-lease account until the record of mutual aid was complete and "benefits" could be judged in the light of the economic and political requisites of maintaining world peace. The principles governing that final determination were, nevertheless, clearly set forth in the often-quoted Article VII of the Master Agreements. There it was specified that the terms and conditions in the final determination of benefits "shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations." It was further agreed that "they shall include provision for agreed action . . . directed to the expansion, by appropriate international and domestic measures of production, employment, and the exchange and consumption of goods . . . to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers."

Observation of these principles would have infinitely greater effects than any mere cancellation of a lend-lease debt. It would constitute a positive step toward the attainment of the long-run economic objectives outlined in the Atlantic Charter.



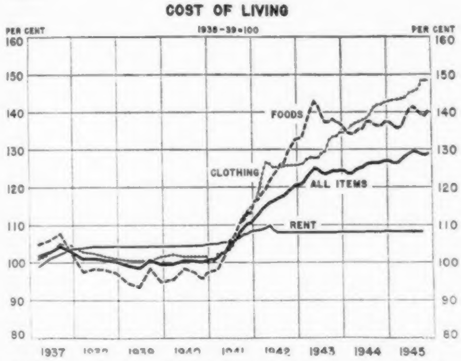
INDUSTRIAL PRODUCTION

Federal Reserve index. Monthly figures; preliminary for December 1945.

DEPARTMENT STORE SALES AND STOCKS

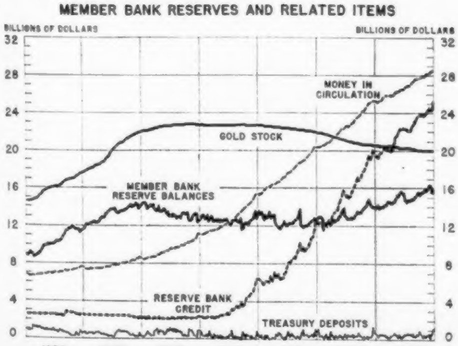
Federal Reserve indexes. Monthly figures, latest sales figures shown are preliminary for December 1945, latest stock figures shown are for November 1945.

COST OF LIVING



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for November 1945. Latest rent figure shown is for September 1945.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for December 26, 1945.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Industrial output declined slightly in December and, with new strikes occurring within the past two weeks, a large decrease is indicated in January. The value of retail trade in December and the early part of January was maintained at record levels, after allowing for seasonal changes.

Industrial Production—The Board's seasonally adjusted index of industrial production decreased from 168 per cent of the 1935-39 average in November to 164 in December. The decline was due mainly to the stoppage of work at leading automobile plants and to holiday influences on activity in the steel, textile, paper, and mining industries.

Output of most types of producers equipment and of many consumer durable goods showed further gains in December and increases also occurred in output of construction materials. These gains, however, were more than offset by suspension of operations at automobile plants and total durable goods output declined by three per cent, reflecting decreases not only in output of automobiles and parts but also of such other metal products as diesel locomotives and refrigerators.

Steel production declined slightly in December owing to most plants being shut down for two days in observance of the Christmas holiday. In the first three weeks of the month steel production was above the November rate and output was resumed at a high level during the first three weeks of January. In the following week, however, steel output dropped to five per cent of capacity as negotiations for a new wage contract collapsed.

Output of nondurable goods in December was maintained at about the level of the preceding month. Meat production continued at a high level in December and the early part of January. Activity at most meat-packing plants was suspended in the latter part of January due to an industrial dispute. Production of cigarettes declined considerably, reflecting an accumulation of stocks resulting from increased output for civilian use since the end of the war. Output of tires for civilians increased substantially in November and December and rationing was eliminated on January 1. Cotton consumption declined in December, reflecting holiday influences.

Coal production in December was about 10 per cent below the November level because of reduced operations at mines around the Christmas holiday. A high rate of output was maintained in both bituminous and anthracite coal mines in the early part of January. Output of crude petroleum and of metals was generally maintained in December.

Awards for private construction, especially contracts for manufacturing and commercial buildings and those for residential building for sale or rent, continued to advance sharply in November and the early part of December.

Employment—Employment in most lines of activity continued to rise in December, after allowing for seasonal changes. Gains in employment in trade, transportation, construction, and most durable and nondurable goods industries were offset in part by the loss in employment due to the automobile strike.

Distribution—Sales at department stores were about 10 per cent larger in December than a year ago, and in the first three weeks of January sales continued to show about the same increase above the relatively high level in the corresponding period of 1945. Most other types of stores in recent months have shown even larger increases in sales than department stores, and the total value of retail trade has been running 12 to 15 per cent above year-ago levels.

Commodity Prices—Prices of most farm products and foods were maintained at advanced levels in December and the early part of January. Ceiling prices were reestablished for citrus fruits; egg prices also declined, reflecting seasonal increases in supplies.

Price ceilings for furniture, printing machinery, furnaces, and various other manufactured products were advanced and there were indications that the general level of steel prices would be raised.

Security Markets—Prices of Treasury bonds have risen sharply in recent weeks with the result that yields are now at the lowest levels on record. Stock market prices rose sharply in January to the highest levels for a number of stocks since 1930. Effective January 21, the Board of Governors of the Federal Reserve System raised margin requirements for listed stocks to 100 per cent.

Bank Credit—Return flow of currency of almost 700 million dollars, following the Christmas rise, together with a reduction of Treasury deposits at Federal Reserve Banks early in January, provided member banks with substantial amounts of reserve funds. At the same time, bank loans made for purchasing and carrying Government securities during the Victory Loan Drive were reduced. Member banks continued to increase their holdings of Government securities, while the Federal Reserve Banks reduced their portfolio. Bank deposits have shown little change since the sharp decline in demand deposits adjusted and the increase in U. S. Government deposits during the Victory Loan Drive.

SEVENTH FEDERAL

RESERVE DISTRICT